



OFFICE OF INSPECTOR GENERAL

U.S. Department of Energy

ASSESSMENT REPORT

DOE-OIG-20-39

April 2020

**AUDIT COVERAGE OF COST
ALLOWABILITY FOR ALLIANCE FOR
SUSTAINABLE ENERGY, LLC FROM
OCTOBER 1, 2013, TO SEPTEMBER 30,
2018, UNDER DEPARTMENT OF ENERGY
CONTRACT NO. DE-AC36-08G028308**



Department of Energy
Washington, DC 20585

April 29, 2020

MEMORANDUM FOR THE DIRECTOR, GOLDEN FIELD OFFICE

FROM: Jack Rouch
Deputy Assistant Inspector General
for Audits
Office of Inspector General

SUBJECT: INFORMATION: Assessment Report on “Audit Coverage of Cost Allowability for Alliance for Sustainable Energy, LLC from October 1, 2013, to September 30, 2018, Under Department of Energy Contract No. DE-AC36-08G028308”

BACKGROUND

Alliance for Sustainable Energy, LLC (Alliance) has managed and operated the National Renewable Energy Laboratory under contract with the Department of Energy since 2008. The National Renewable Energy Laboratory supports the research, development, commercialization, and deployment of renewable energy and energy efficiency technologies. From October 1, 2013, to September 30, 2018, Alliance incurred and claimed costs totaling \$1,919,193,462.14. The table below illustrates the costs incurred and claimed by Alliance under contract DE-AC36-08G028308 during fiscal years (FYs) 2014 through 2018.

Fiscal Year	Incurred and Claimed Costs
2014	\$ 374,742,782.14
2015	\$ 385,063,211.06
2016	\$ 379,809,387.46
2017	\$ 373,163,635.84
2018	\$ 406,414,445.64
Total	\$ 1,919,193,462.14

Alliance’s financial accounts are integrated with those of the Department, and the results of transactions are reported monthly according to a uniform set of accounts. Alliance is required by its contract to account for all funds advanced by the Department annually on its Statement of Costs Incurred and Claimed, to safeguard assets in its care, and to claim only allowable costs. Allowable costs are incurred costs that are reasonable, allocable, and allowable in accordance with the terms of the contract, applicable cost principles, laws, and regulations.

The Department's Office of Inspector General, Office of Acquisition Management, integrated management and operating contractors, and other select contractors have implemented a Cooperative Audit Strategy. This strategy places reliance on the contractors' internal audit functions to provide audit coverage of the allowability of incurred costs claimed by contractors. Consistent with the strategy, Alliance is required by its contract to maintain an internal audit activity (Internal Audit) with the responsibility for conducting audits, including audits of the allowability of incurred costs. In addition, Alliance is required to conduct or arrange for audits of its subcontractors when costs incurred are a factor in determining the amount payable to the subcontractor.

The objectives of our assessment for FYs 2014 through 2018 were to determine, based on our limited sampling, whether:

- Alliance's Internal Audit conducted cost allowability audits that complied with professional standards and could be relied upon;
- Alliance conducted or arranged for audits of its subcontractors when costs incurred were a factor in determining the amount payable to a subcontractor; and
- Alliance resolved questioned costs and internal control weaknesses affecting allowable costs that were identified in prior audits and reviews.

RESULTS OF ASSESSMENT

During our assessment, nothing came to our attention to indicate that allowable cost-related audit work performed by Internal Audit for FYs 2014 through 2018 could not be relied upon. We conducted our assessment as a review attestation. A review is substantially less in scope than an examination or audit. Our review was limited and would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our review. Based on our limited sampling, we did not identify any material internal control weaknesses with allowable cost audits, which generally met the International Standards for the Professional Practice of Internal Auditing prescribed by the Institute of Internal Auditors. In audits completed since October 1, 2014, Internal Audit identified internal control weaknesses and questioned costs totaling \$4,075,427.71, which have all been resolved.

We also found that Alliance generally provided audit coverage of its subcontracts for which costs incurred were a factor in determining the amount payable to the subcontractors. In particular, Internal Audit selected subcontracts for interim reviews according to a risk-based approach applied to the entire population of active, cost-type subcontracts. For each subcontract selected, Internal Audit reviewed a sample of invoices to determine whether costs claimed by and reimbursed to subcontractors were allowable, allocable, reasonable, and consistent with contract terms and conditions. Alliance's policy is to also provide closeout audits of its cost-type subcontracts, such as cost-reimbursable, cost-share, and time-and-material subcontracts that are deemed high risk. However, we identified three labor-hour subcontracts totaling approximately \$12.6 million that had been closed without receiving a closeout audit. Alliance did not include labor-hour subcontracts in its population of cost-type subcontracts requiring closeout audits.

Labor-hour subcontracts should be included in the universe of subcontracts requiring closeout audits because, with labor-hour subcontracts, costs incurred are a factor in determining the amount payable to a subcontractor. FAR 16.602, *Labor-hour contracts*, defines labor-hour subcontracts as a variation of the time-and-materials contract, differing only in that materials are not supplied by the contractor. Although there were no closeout audits, we noted that Internal Audit had provided interim audit coverage to all three of these subcontracts prior to their closeout.

Although we determined we could rely on Internal Audit's work for this assessment period, we found instances in which we could not verify continuing professional education hours with applicable certificates for calendar years 2014 and 2015. Specifically, we could not verify a total of 205 continuing professional education hours. *International Standards for the Professional Practice of Internal Auditing Standard (IIA) 1210 - Proficiency* requires that internal auditors possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. Alliance's Internal Audit Implementation Design Plan states that each auditor is expected to receive a minimum of 80 hours of continuing professional education every 2 years. The absence of certificates primarily occurred because training records were not retained for Internal Audit personnel that separated from Alliance. Four Internal Audit employees who had separated accounted for 203 of the 205 undocumented continuing professional education hours. The Internal Audit Director noted that Internal Audit now retains training certificates for individuals that separate from the organization, as evidenced by the minimal issues identified with calendar years 2016 through 2018 training documentation. Because Internal Audit corrected this records retention issue in more recent years, we did not make any formal recommendations in this report regarding training documentation.

RECOMMENDATION

We recommend that the Director, Golden Field Office, direct the Contracting Officer to:

1. Ensure that Internal Audit provides adequate closeout audit coverage to labor-hour subcontracts.

MANAGEMENT RESPONSE AND AUDITOR COMMENTS

Management concurred with the report's recommendation. Management stated that the Contracting Officer will ensure that Internal Audit includes labor-hour contracts in the population for determining contracts requiring closeout audits. Additionally, management stated that the Contracting Officer would ensure that Internal Audit updates the threshold requiring closeout audits for all commercial and university cost-type subcontracts to \$1 million (or less if deemed high risk). We consider management's planned actions to be responsive to our recommendation.

Management's comments are included in Attachment 2.

SCOPE AND METHODOLOGY

This assessment was performed from May 2019 to March 2020 at the National Renewable Energy Laboratory located in Golden, Colorado. The assessment was limited to Internal Audit's activities, subcontract audits, and resolution of questioned costs and internal control weaknesses that affect costs claimed by Alliance on its Statements of Costs Incurred and Claimed for FYs 2014 through 2018. The assessment was conducted under Office of Inspector General project number A19DN033.

To accomplish our objectives, we:

- Assessed allowable cost audit work conducted by Internal Audit that included a review of allowable cost audit reports, workpapers, auditor qualifications, independence, audit planning (including risk assessments and overall internal audit strategy), and compliance with applicable professional auditing standards.
- Conducted interviews with Department and Alliance personnel.
- Reviewed policies, procedures, practices for identifying subcontracts that require audit, and contract requirements relevant to our assessment objectives.
- Retested a sample of incurred cost transactions tested by Internal Audit in its allowable costs audits and subcontract audits. We judgmentally selected a sample of transactions that Internal Audit reviewed from FYs 2017 and 2018. Because sample selection was not statistical, the results and overall conclusions were limited to the transactions retested and could not be projected to the entire population of transactions.
- Evaluated the resolution of questioned costs and internal control weaknesses affecting cost allowability that were identified in prior audits and reviews conducted by Internal Audit.

We conducted our assessment in accordance with generally accepted government auditing standards for attestation engagements. Those standards require that we plan and perform the review to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our objectives. A review is substantially less in scope than an examination or audit where the objective is an expression of opinion on the subject matter and accordingly, for this review, no such opinion is expressed. Additionally, because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our review. We relied on a limited amount of computer-processed data to accomplish our assessment objectives. We determined that it was sufficiently reliable for the purposes of the review by comparing the data to source documents.

Management waived an exit conference on April 13, 2020.

This report is intended for the use of the Department Contracting Officers and site officials in the management of their contracts and is not intended to be and should not be used by anyone other than these specified parties.

Attachments

PRIOR REPORT

Assessment Report on the *Audit Coverage of Cost Allowability for Alliance for Sustainable Energy, LLC During Fiscal Years 2012 and 2013 Under Department of Energy Contract No. DE-AC36-08GO28308* (OAI-V-16-06, March 2016). Based on our assessment, nothing came to our attention to indicate that allowable cost-related audit work performed by Alliance for Sustainable Energy, LLC's Internal Audit could not be relied upon. We did not identify any material internal control weaknesses with the cost allowability audits, which generally met the International Standards for the Professional Practice of Internal Auditing prescribed by the Institute of Internal Auditors. During fiscal years 2012 and 2013, Alliance for Sustainable Energy, LLC's Internal Audit and the Defense Contract Audit Agency identified a total of \$196,023 in questioned costs, all of which had been resolved. In addition, in response to the findings and recommendations identified in our previous report *Assessment of Audit Coverage of Cost Allowability for National Renewable Energy Laboratory During Fiscal Years 2009 Through 2011 Under Department of Energy Contract No. DE-AC36-08GO28308* (OAS-V-14-03, November 2013), we found that Alliance for Sustainable Energy, LLC had resolved costs pending audit, generally addressed subcontract audit strategy concerns, and partially recovered costs previously determined to be unallowable. Further, the Department of Energy had resolved the account discrepancies between the National Renewable Energy Laboratory and the Department's accounting systems.

MANAGEMENT COMMENTS



Department of Energy
Golden Field Office
15013 Denver West Parkway
Golden, Colorado 80401

April 13, 2020

MEMORANDUM FOR: Jack Rouch
Deputy Assistant Inspector General for Audits
Office of Inspector General

FROM: Derek G. Passarelli *Derek G. Passarelli*
Director
Golden Field Office
Office of Energy Efficiency and Renewable Energy

SUBJECT: Response to the Office of Inspector General Draft
Assessment Report on "Audit Coverage of Cost
Allowability for Alliance for Sustainable Energy, LLC
from October 1, 2013, to September 30, 2018, Under
Department of Energy Contract No. DE-AC36-
08G028308"

Summary of the Golden Field Office Position:

The Department of Energy (DOE), Office of Energy Efficiency and Renewable Energy (EERE), Golden Field Office (Golden) appreciates the opportunity to review the Office of Inspector General's (OIG) Assessment Report on "Audit Coverage of Cost Allowability for Alliance for Sustainable Energy, LLC (Alliance) from October 1, 2013, to September 30, 2018, under Department of Energy Contract No. DE-AC36-08G028308"

We recognize that even the most effective programs can benefit from an external evaluation and appreciate the input of the OIG as we continue to work to strengthen our programs and processes. Golden is in concurrence with the findings and recommendations identified in the report. Specific responses to your recommendations are provided below.

Response to Recommendations

RECOMMENDATION #1: We recommend that the Director, Golden Field Office, direct the Contracting Officer to ensure that Internal Audit provides adequate closeout audit coverage to labor-hour subcontracts.

GOLDEN RESPONSE: Golden concurs with the recommendation. The Contracting Officer will ensure Alliance Internal Audit includes NREL's labor hour contract population with the

time and materials contract population for determining contracts requiring closeout audits. The Contracting Officer will also ensure Alliance Internal Audit updates the threshold requiring close-out audits for all commercial and university cost-type subcontracts to \$1M or greater (or less if deemed to be high-risk). The new closeout audit requirements will be provided to the Alliance in a Contracting Officer Letter by September 30, 2020.

FEEDBACK

The Office of Inspector General has a continuing interest in improving the usefulness of its products. We aim to make our reports as responsive as possible and ask you to consider sharing your thoughts with us.

Please send your comments, suggestions, and feedback to OIG.Reports@hq.doe.gov and include your name, contact information, and the report number. You may also mail comments to us:

Office of Inspector General (IG-12)
Department of Energy
Washington, DC 20585

If you want to discuss this report or your comments with a member of the Office of Inspector General staff, please contact our office at (202) 586-1818. For media-related inquiries, please call (202) 586-7406.